

STATE OF UTAH INSURANCE DEPARTMENT
REPORT OF FINANCIAL EXAMINATION

of

Western Mutual Insurance Company

of

Taylorsville, Utah

as of

December 31, 2005



TABLE OF CONTENTS

SALUTATION	1
SCOPE OF EXAMINATION.....	1
Period Covered by Examination	1
Examination Procedure Employed	1
Status of Prior Examination Findings	2
HISTORY	2
General.....	2
Capital Stock.....	3
Dividends to Stockholders	3
Management.....	3
Conflict of Interest Procedure	4
Corporate Records	4
Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance	5
Surplus Debentures	5
AFFILIATED COMPANIES	5
Transactions with Affiliates.....	5
FIDELITY BOND AND OTHER INSURANCE	6
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	6
STATUTORY DEPOSITS	7
INSURANCE PRODUCTS AND RELATED PRACTICES	7
Policy Forms and Underwriting.....	7
Territory and Plan of Operation.....	7
Advertising and Sales Material	8
Treatment of Members.....	8
REINSURANCE.....	8
Assumed.....	8
Ceded	9
ACCOUNTS AND RECORDS	9
FINANCIAL STATEMENTS	10
BALANCE SHEET	11
SUMMARY OF OPERATIONS	12
RECONCILIATION OF CAPITAL AND SURPLUS.....	13
NOTES TO FINANCIAL STATEMENTS.....	14
SUMMARY OF EXAMINATION FINDINGS.....	14
CONCLUSION.....	14

July 31, 2006

Honorable Alfred W. Gross, Commissioner
Chair, Financial Condition (E) Committee,
National Association of Insurance Commissioners (NAIC).
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
P.O. Box 1157
Richmond, Virginia 23218

Honorable D. Kent Michie, Commissioner
Secretary, Western Zone, NAIC
Utah Insurance Department
State Office Building, Room 3110
Salt Lake City, Utah 84114

Pursuant to your instructions and in compliance with Utah Code Annotated (U.C.A.) Title 31A, an examination, as of December 31, 2005, has been made of the financial condition and business affairs of:

Western Mutual Insurance Company
Taylorsville, Utah

a life disability mutual insurance company, hereinafter referred to as the Company, and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered by Examination

The last financial examination of the Organization was conducted as of December 31, 2002. The current examination covers the period from January 1, 2003, through December 31, 2005, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination.

Examination Procedure Employed

This examination was conducted under the association plan of the NAIC, in accordance with the NAIC Financial Condition Examiners Handbook, while also incorporating top-down, risk-focused examination techniques contemplated in the current draft version on Risk Focused Examinations of the NAIC Financial Condition Examiners Handbook. The examination included a general review and analysis of the Company's operations, the manner in which its business was conducted during the examination period and a determination of its financial condition as of December 31, 2005. This included tests of accounting records and a review of the Company's affairs and practices to the extent deemed

necessary. Material assets were valued and ownership verified, and liabilities were determined in accordance with the laws, rules and procedures prescribed by the state of Utah.

The Company retained the services of a certified public accounting firm to audit its financial records for the years under examination. The firm provided requested working papers prepared in connection with its audits.

A letter of representation certifying management disclosed all significant matters and records was obtained from management and included in the examination working papers.

The examination relied on the findings of the actuarial firm employed by the state of Utah Insurance Department (Department) to verify aggregate reserves for life and accident and health, liability for deposit-type contracts, policy and contract claims, and provision for experience rating refunds. The actuary tested the completeness of records and accuracy of the underlying data used to establish reserve amounts.

Status of Prior Examination Findings

Adverse findings noted in the prior report of examination were either adequately addressed by the Company or are identified as repeat exceptions in this report.

HISTORY

General

Western Petroleum Marketers Mutual Insurance Company was licensed by the Department as a mutual life insurance company effective July 1, 1987. The Company is authorized to issue life and disability insurance.

The Company succeeded the Intermountain Oil Marketers Employee Trust on July 1, 1987. Intermountain Oil Marketers Employee Trust commenced business during 1974, and it continued its operations through June 30, 1987, at which time all assets and liabilities were transferred to the Company. The "net worth" of Intermountain Oil Marketers Employee Trust as of June 30, 1987, was \$1,388,964, and it was subsequently disclosed as "paid in surplus" on the Company's annual statements.

The name of the Company was officially changed in December 1994 to Western Mutual Insurance Company. The Company formed WMI TPA, Inc., a wholly owned third party administrator in 1999.

The Company amended its articles of incorporation effective December 31, 2003. The amendment in Article VII, reads as such:

"The Bylaws of the Corporation shall designate three or more principal offices the principal officers of the corporation shall hold, and may also designate such other officers and assistant officers as may be deemed necessary or desirable by the Board of Directors.

Members of the Board of Directors may also be officers of the Corporation. The principal offices shall be held by at least three separate natural persons.”

The Company amended its bylaws effective October 24, 2003. The amendment to Article IV – Section 1, reads as such:

“The officers of the Corporation shall be designated so as to fully comply with U.C.A. § 31A-5-203(3) and in Article VII of the Articles of Incorporation. The officers shall consist of a Chairman, a President, and a Secretary/Treasurer and other such officers as may be appointed by the Board of Directors.”

Article IV – Section 6 (4), was amended to define the powers and duties of the Chairman of the Board stating that if the Board of Directors has not appointed a separate officer to be Chief Executive Officer, the Chairman of the Board shall be the Chief Executive Officer. Article IV – Section 7 was amended to define the powers and duties of a Vice Chairman, if one is appointed by the Board.

No additional amendments to the articles of incorporation or bylaws were noted during the period covered by this examination.

Capital Stock

The Company is a mutual insurance; therefore, there is no capital stock.

Dividends to Stockholders

The Company did not pay dividends to stockholders during the examination period, since the Company is a mutual insurance.

Management

Directors of the Company, as of December 31, 2005 were as follows:

<u>Name and Residence</u>	<u>Principal Occupation</u>
Douglas A. Alexander Bozeman, Montana	President Story Distributing Company
Wilford A. Cardon Mesa, Arizona	Chief Executive Officer/Owner The Cardon Companies
Craig Eerkes Kennewick, Washington	Chief Executive Officer/President Sun Pacific Energy Company
Kendall P. Hatch Salt Lake City, Utah	Attorney, Retired

Harold Kent Johnson Boise, Idaho	President, Boise Cold Storage Company
Gerry D. Richardson Ogden, Utah	Petroleum Business Owner, Retired
Gerald W. Tedrow Highland, Utah	Executive Director, Retired Western Petroleum Marketers Association

Effective January 1, 2006, David T. Leo, was elected as a member of the Board of Directors, replacing Wilford A. Cardon, whose term expired.

Officers of the Company as of December 31, 2005, were as follows:

<u>Name</u>	<u>Title</u>
Harold Kent Johnson	Chairman
David T. Leo	President, Chief Executive Officer
Nancy J. Comins	Secretary, Treasurer, Chief Financial Officer

The members of the Company's committees as of December 31, 2005, were as follows:

<u>Audit Committee</u>	<u>Investment Committee</u>	<u>Personnel Committee</u>
Kendall P. Hatch	Craig Eerkes	Kendall P. Hatch
Gerald D. Richardson	Wilford A. Cardon	Gerald D. Richardson
Gerald W. Tedrow	Gerald W. Tedrow	Gerald W. Tedrow

Conflict of Interest Procedure

The Company had an established procedure for disclosing to its Board of Directors any material affiliation on the part of its officers, directors, or responsible employees, which is likely to conflict with the individual's official duties. Each person was required to file an annual statement disclaiming or disclosing any material conflict of interest. No exceptions to the established procedure were noted by the examination.

Corporate Records

Minutes of the meetings of the shareholders and minutes of the meetings of the Board of Directors were reviewed. The minutes indicated the Company operates within the scope of its authority and the directors are properly informed of and participate in Company affairs. Generally, at each annual Board of Directors meeting, a detailed report of investment transactions since the previous meeting was presented and approved.

The report of the examination of the Company generated by the Department as of December 31, 2002, was distributed to the Board of Directors on May 5, 2004, in accordance with U.C.A. § 31A-2-204(8).

Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance

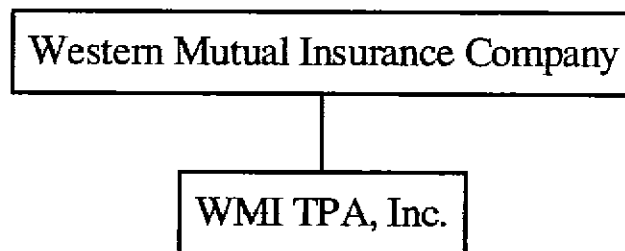
The Company was not involved in any acquisitions, mergers, disposals, dissolutions, and purchases or sales through reinsurance during the examination period.

Surplus Debentures

No surplus debentures were issued or were outstanding during the examination period.

AFFILIATED COMPANIES

The following organization chart identifies the Company's relationship with its subsidiary:



As a mutual insurer, the Company provides insurance coverage to member companies, namely, the Western Petroleum Marketers Association (WPMA) and the Montana Retail Association (MRA).

As of December 31, 2005, the member companies consisted of approximately four hundred employer groups. WPMA member are entitled to one vote and each sub-association member of MRA is entitled to one vote.

WMI TPA, Inc., is a wholly owned third party administrator. The Company shared common management with WMI TPA, Inc.

Transactions with Affiliates

Effective June 30, 2000, the intercompany agreement between WMI TPA, Inc. and the Company allowed the subsidiary to sublease office space from the Company, to utilize certain office equipment belonging to the Company on a pro rata basis, to utilize the Company's third party claims, billing and enrollment software at the same rate charged to the Company by the third-party vendor, and to have access to and support from certain employees of the Company at their customary rate of pay.

Effective March 15, 2000, the intercompany agreement between WMI TPA, Inc. and the Company allowed WMI TPA, Inc. to offer the ancillary insurance products of the Company at the same rates at which the products are being offered by the Company directly.

Effective August 25, 1997 through October 31, 2005, the agreement between WPMA and the Company, required the Company to pay WPMA a fee for services rendered by WPMA. The fee for common management was \$2,803 per month. Also, the Company paid the actual cost of using WPMA's postage meter.

Effective November 1, 2005, the agreement between WPMA and the Company, agreed that the Company will pay to WPMA a promotional allowance equal to \$1.00 per employee per month (PEPM). This promotional allowance was to encourage WPMA to continue supporting, endorsing, promoting membership and to purchase insurance through the Company.

Effective August 29, 2005, the intercompany agreement allows WPMA to sublease office space from the Company. The Company subleases 61% of the total area leased to WPMA by the owner of the premises in consideration for the Company paying 61% of all costs and expenses. The term of the sublease commenced on March 16, 2000, and has been revised for an additional 5-year term commencing on June 1, 2005, and terminating on May 31, 2010.

FIDELITY BOND AND OTHER INSURANCE

The amount of fidelity insurance coverage recommended by the NAIC for an insurer of the Company's size is between \$200,000 and \$250,000. The Company had fidelity coverage with a single loss limit of \$1,000,000 as of December 31, 2005.

The Company was also a named insured under policies providing property and liability coverage.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company provided its employees with health, disability, vision, dental and life insurance benefits. The Company also provided a flexible benefit plan, which is administered by a trustee for medical expenses not reimbursed and dependent day care.

Employees who had one year of service were included in the Company's simplified employee pension program (SEP). No provision for the SEP was necessary in the financial statement of the Company. The SEP was administered by a trustee, in which benefits were paid as the obligation was incurred.

STATUTORY DEPOSITS

The Company maintained a deposit in the state of Utah in the amount of its permanent surplus of \$400,000, which complied with U.C.A. § 31A-4-105.

The following securities were held on deposit in three states for the benefit of all policyholders, claimants and creditors of the Company.

<u>State</u>	<u>Description</u>	<u>Par Value</u>	<u>Fair Value</u>
Utah	Bonds	\$ 985,000	\$ 995,362
Utah	Money Market Fund	15,000	15,000
	Total Utah	<u>\$ 1,000,000</u>	<u>\$ 1,010,362</u>
Nevada	Bonds	200,000	201,894
New Mexico	Special Revenue Bond	100,000	100,923
	Totals	<u>\$ 1,300,000</u>	<u>\$ 1,313,179</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting

The Company provides accident and health insurance coverage contracts under a comprehensive major medical expense plan policy. This plan sets the percentage payable after the satisfaction of the deductible and prior to the satisfaction of the out-of-pocket maximum amounts for eligible inpatient hospital, outpatient hospital, surgery and medical services. The Company retained the first \$225,000 for each person insured under the excess of loss reinsurance agreement.

Supplemental dental, vision, life and disability benefits may be obtained with basic health insurance contracts. The group life insurance and disability insurance plans, which are no longer marketed, had varying coverage amounts available ranging from \$5,000 to \$20,000. The voluntary group life insurance plan, which is still actively marketed, offered coverage in increments of \$10,000, \$25,000, \$50,000, \$75,000 and \$100,000. The Company retained the first \$20,000 for each insured's basic group term life coverage under the indemnity reinsurance agreement. Also, it retained the first \$25,000 for each insured's voluntary group term life coverage under the indemnity reinsurance agreement.

Territory and Plan of Operation

The Company is licensed to transact life, disability or health insurance business in the states of Arizona, Idaho, Montana, Nevada, New Mexico and Utah. Effective January 5, 2006, the Company became licensed to transact disability insurance business in the state of Washington.

Participants in the life, disability and health programs offered were member companies in WPMA or the Montana Retail Association (MRA). Participants residing in Montana were either members of WPMA, MRA, or other specified associations in Montana only. The Company insures approximately 400 employer groups and provides third party administrative services for 10 employer groups through its subsidiary third party administrator, WMI TPA, Inc.

The Company employed a marketing director and two distinct distribution systems in the marketing and sale of its products. The first distribution is through an internal agency, "Western Mutual Insurance Agency," and several independent agents to supplement potential WPMA members. The second distribution is marketed on the MRA business through a general agent. The general agent is Glacier Insurance Strategies (formerly known as Glacier Financial Strategies), which sub-agents and sub-agencies are appointed under this agency. Regardless of which marketing approach is employed or block of business involved, all underwriting is conducted through the Company's underwriting department.

Advertising and Sales Material

The Company maintains a web site, www.westernmutualinsurance.com with information on products and services. As a mutual insurer, the Company does not solicit insurance sales to the general public.

The Company advertises in the "Western Petroleum Marketers News" a quarterly periodical distributed to its members. The Company utilizes an advertising and sales flyer that is sent to WPMA members and prospective members. Also, advertising is contained in the various MRA membership directories.

A review of advertising and sales material utilized by the Company in its marketing efforts noted no objectionable or misleading items.

Treatment of Members

Formal procedures to handle written complaints were in place within the Company. During the examination period, one complaint was filed with the Department. This complaint was resolved and closed. The examination encountered no items of concern, during the course of the examination, regarding treatment of members.

REINSURANCE

Assumed

The Company neither maintained nor entered into any assumed reinsurance arrangements during the examination period.

Ceded

The Company's ceded reinsurance program consisted of coverage for excess medical expense and coverage for its basic group term life and voluntary group term life risks.

The Company obtained fully insured medical excess of loss reinsurance to cover fully insured group medical expense benefits, contracts, and binders of insurance from Reliastar Life Insurance Company, a Minnesota domiciled insurer licensed in the state of Utah. The Company's retention was \$225,000 per covered person, and the reinsurer's maximum liability was \$2,000,000.

The Company reinsured its basic group term life (including its non-occupational accidental death and dismemberment coverage) and voluntary group term life risks through an agreement with Beneficial Life Insurance Company, a Utah domiciled insurer. The Company's retention for its basic group term life with a \$50,000 maximum coverage was \$20,000 for each insured life, and it retained the coverage for dependent benefits. The Company's retention for its voluntary group term life with a \$500,000 maximum coverage per employee and a \$100,000 maximum coverage for an employee's spouse was \$25,000 per person, and it retained the coverage for dependent benefits. The reinsurer did not accept any coverage in excess of \$100,000 per insured unless it approved the coverage in advance in writing.

ACCOUNTS AND RECORDS

The Company's accounting is maintained for the general ledger system, sub-ledgers, journal registers and other computerized reports are all located in Salt Lake City, Utah. Most of the Company's claims accounting functions and procedures are on a mainframe system located in Greenwood Village, Colorado. Data from the mainframe is used by the Company to prepare annual and quarterly statement exhibits, schedules and other financial statements. Subsidiary records are maintained in commercial software applications on stand-alone personal computers.

An examination trial balance was prepared from the Company's computerized general ledger as of December 31, 2005. Account balances were traced to the annual statement exhibits and schedules. Individual account balances for the examination period were examined as deemed necessary.

During the period covered by the examination, the annual actuarial certifications filed by the Company were not prepared according to guidance set forth in Utah Administrative Code (U.A.C.) Rule R590-162-7(A) & (B) and the most current 2005 NAIC Annual Statement Instructions for Life Accident and Health – Actuarial Opinion pages 33 to 35.

FINANCIAL STATEMENTS

The following financial statements are included in the examination report:

BALANCE SHEET as of December 31, 2005

SUMMARY OF OPERATIONS For the Year Ended December 31, 2005

RECONCILIATION OF CAPITAL AND SURPLUS - 2003 through 2005

The accompanying NOTES TO FINANCIAL STATEMENTS are an integral part of the financial statements.

WESTERN MUTUAL INSURANCE COMPANY
BALANCE SHEET
as of December 31, 2005

ASSETS

	<u>Amount</u>
Bonds	\$ 7,209,989
Preferred stocks	100,000
Common stocks	1,321,890
Cash and short term investments	678,519
Investment income due and accrued	66,092
Uncollected premiums and agents' balances in the course of collection	56,819
Amounts recoverable from reinsurers	31,808
Net deferred tax asset	95,096
Electronic data processing and software	26,103
Receivables from parent, subsidiaries and affiliates	7,228
Total assets	<u><u>9,593,544</u></u>

LIABILITIES

Contract claims: Accident and health	3,306,213
Premiums and annuity considerations for life and accident and health contracts received in advance	70,351
Provision for experience rating refund	1,136,226
General expenses due or accrued	283,291
Taxes, licenses and fees due or accrued	23,217
Current federal and foreign income taxes	66,210
Asset valuation reserve	279,211
Total liabilities	<u><u>5,164,719</u></u>

CAPITAL AND SURPLUS

Gross paid in and contributed surplus	1,388,964
Unassigned funds (surplus)	3,039,861
Total capital and surplus	<u><u>4,428,825</u></u>
Total liabilities, capital and surplus	<u><u>\$ 9,593,544</u></u>

WESTERN MUTUAL INSURANCE COMPANY
SUMMARY OF OPERATIONS
For the Year Ended December 31, 2004

INCOME

Premiums and annuity considerations for life and accident and health contracts	\$ 17,814,537
Net investment income	121,258
Amortization of Interest Maintenance Reserve (IMR)	(8,793)
Miscellaneous income	103,511
Total income	<u>18,030,513</u>

BENEFITS

Death benefits	10,000
Disability benefits and benefitis under accident and health contracts	14,210,745
Total benefits	<u>14,220,745</u>

EXPENSES

Commissions on premiums, annuity considerations and deposit-type contract funds	694,699
General insurance expenses	2,000,511
Insurance taxes, licenses and fees	551,089
Total expenses	<u>17,467,044</u>
Net gain from operations before dividends to policyholders	563,469
Federal and foreign income taxes incurred	160,774
Net gain from operations after federal income taxes and before unrealized capital gains or (losses)	<u>402,695</u>
Net realized capital gains or (losses)	(477)
Net income (loss)	<u>\$ 402,218</u>

WESTERN MUTUAL INSURANCE COMPANY
RECONCILIATION OF CAPITAL AND SURPLUS
2003 through 2005

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Capital and surplus, December 31, previous year	\$ 2,935,595	\$ 3,295,058	\$ 4,008,755
Net income	254,380	704,675	402,218
Change in net unrealized capital gains (losses)	212,672	107,219	60,013
Change in net deferred income tax	-	-	764
Change in nonadmitted assets and related items	18,011	424	(15,193)
Change in asset valuation reserve	(125,600)	(98,621)	(27,732)
Net change in capital and surplus for the year	<u>359,463</u>	<u>713,697</u>	<u>420,070</u>
Capital and surplus December 31, current year	<u>\$ 3,295,058</u>	<u>\$ 4,008,755</u>	<u>\$ 4,428,825</u>

NOTES TO FINANCIAL STATEMENTS

The surplus reported by the Company in its December 31, 2005 financial statement blank was \$4,428,825. For examination purposes, no adjustments were determined necessary.

The Company's permanent surplus requirement was \$400,000 pursuant to U.C.A. § 31A-5-211. As defined by U.C.A. § 31A-17-601, the Company's reported total adjusted capital was \$4,708,036 and its authorized control level risk-based capital (RBC) requirement was \$849,073, as of December 31, 2005. These amounts were determined acceptable for examination purposes.

SUMMARY OF EXAMINATION FINDINGS

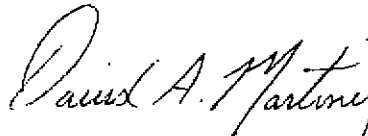
Items of significance or special interest contained in this report are summarized below:

1. The annual actuarial certifications filed by the Company were not prepared according to guidance set forth in U.A.C Rule R590-162-7(A) & (B) and the NAIC Annual Statement Instructions for Life Accident and Health for each of the years 2003, 2004 and 2005. (ACCOUNTS AND RECORDS)

CONCLUSION

We acknowledge the assistance and cooperation extended during the course of the examination by officers, employees and representatives of the Company. In addition to the undersigned, Colette Reddoor, CFE, CPM, Assistant Chief Examiner, and Michael A. Mayberry, FSA, MAAA, of Lewis and Ellis Actuaries and Consultants, representing the Utah Insurance Department, participated in the examination.

Respectfully submitted,



David A. Martinez, CFE, AIE
Examiner in Charge
Utah Insurance Department